

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Mayor and Aldermen
City of Manchester, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manchester, New Hampshire ("the City") as of and for the year ended June 30, 2003 which collectively comprises the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the Manchester School District or the Manchester Transit Authority, component units of the City, which financial statements reflect 96.9% of the revenues and 9% of the assets of the discretely presented component units. We also did not audit the City of Manchester Employees' Contributory Retirement System, a pension trust fund and a blended component unit of the City, which represents 80% of the assets and 100% of the additions of the pension trust funds. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to amounts included for the Manchester School District, the Manchester Transit Authority and the City of Manchester Employees' Contributory Retirement System, component units of the City, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the reports of other auditors, provide a reasonable basis for our opinions.

As described in Note 9 to the basic financial statements, the City accounted for the receipt of title to the Manchester Civic Center as a non-exchange transaction. We were not able to obtain sufficient evidence to satisfy ourselves as to the propriety of this accounting treatment of the carrying value of net assets.

In our opinion, except for the effect, if any, of the reporting of the receipt of title to the Manchester Civic Center as a non-exchange transaction on governmental activities, as described in the preceding paragraph, based on our audit and the reports of other auditors the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manchester, New Hampshire, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 35 through 48 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with "Government Auditing Standards," we have also issued our report dated October 29, 2003 on our consideration of the City of Manchester, New Hampshire's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, budgetary detail, combining and individual nonmajor fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

New Haven, Connecticut
October 29, 2003

City of Manchester, New Hampshire
Management's Discussion and Analysis
June 30, 2003

As management of the City of Manchester, New Hampshire (the "City") we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here along with additional information we have furnished in our letter of transmittal, as well as the City's basic financial statements that follow this section.

Financial Highlights

- ◆ On a government-wide basis, the assets of the City exceeded its liabilities resulting in total net assets at the close of the fiscal year of \$383 million. Total net assets for Governmental Activities at fiscal year-end was \$71.7 million and total net assets for Business-Type Activities were \$311.3 million. The unrestricted net assets at June 30, 2003 were \$14 million or 3.7% of the City's total net assets.
- ◆ On a government-wide basis, during the year, the City's net assets increased by \$37.4 million or 10.7%, from \$345.6 million to \$383 million. Net assets increased by \$8.2 million for Governmental Activities and net assets increased by \$29.2 million for Business-Type Activities. Government-wide expenses were \$187.3 million, while revenues were \$224.7 million.
- ◆ At the close of the year, the City's governmental funds reported, on a current financial resource basis, combined ending fund balances of \$32.1 million, a decrease of \$11.3 million from the prior fiscal year. Of the total fund balance as of June 30, 2003, there is a deficit of \$5.9 million which represents the combined unreserved deficit in the general fund, special revenue funds, capital projects fund and permanent funds. The combined deficit is due to the capital projects deficit of \$8.4 million.
- ◆ At the end of the current fiscal year, the total fund balance for the general fund alone was \$22.8 million, an increase of \$1 million from the prior fiscal year. Included in the fiscal year 2003 budget was an appropriation of \$1.1 million of unreserved and undesignated fund balance. As of June 30, 2003, \$1.3 million of the total general fund fund balance represents unreserved and undesignated general fund balance. Unreserved general fund fund balance at year-end represents 1.3% of total general fund expenditures and transfers (\$100.8 million).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information as well as the basic financial statements.

It is important to note that the City implemented the new reporting requirements outlined in GASB 34 effective July 1, 2001. The financial statements, therefore, contained within this report as of June 30, 2003, are the City's second report using the new reporting model. In addition, the City was among one of the first municipalities in the State of New Hampshire required to report under the new model for the fiscal year ended June 30, 2002. As allowed under GASB 34, the City elected not to present all required comparative data for that year of implementation. The report for fiscal year ending June 30, 2003, however, contains all required comparative information with the City itself.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. All of the resources the City has at its disposal are shown, including major assets such as buildings and infrastructure. A thorough accounting of the cost of government is rendered because the statements present all costs, not just how much was collected and disbursed. They provide both long-term and short-term information about the City's overall financial status.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference reported as net assets (deficits). Over time, increases or decreases in net assets (deficits) may serve as an indicator of whether the financial position of the City is improving or deteriorating. It speaks to the question of whether or not, the City, as a whole is better or worse off as a result of this year's activities. Other non-financial factors will need to be considered, however, such as changes in the City's property tax base and the condition of the City's infrastructure, to assess the overall health of the City.

The statement of activities presents information showing how the City's net assets (deficits) changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in some future fiscal period, uncollected taxes and earned but unused vacation leave are examples.

Both of the government-wide financial statements distinguish functions of the City of Manchester that are supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities).

- ◆ Governmental activities of the City encompass most of the City's basic services and include governmental and community services, administration, public safety, health and sanitation, highways and streets, welfare, and education and library as well as cemetery, and parks and recreation. Property taxes, charges for services and state and federal grants finance most of these activities.
- ◆ Business-type activities of the City consist of the Water Works, Environmental Protection Division, Aviation, Recreation and the Aggregation Program. They are reported here, as the City charges a user fee to customers to help cover all or most of the cost of operations.
- ◆ The government-wide financial statements include not only the City itself, but also three legally separate component units, the Manchester School District ("MSD"), the Manchester Transit Authority ("MTA") and the Manchester Development Corporation ("MDC").

The government-wide financial statements (statement of net assets and statement of activities) can be found on pages 50-53 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control and accountability over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has three kinds of funds:

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Projects which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation as Other Governmental Funds. Non-major governmental funds, as discussed in the Letter of Transmittal, for the City include the United States Department of Housing and Urban Development (DHUD) Section 108 Fund, Cash Special Projects Fund, Community Development Block Grant Fund, Other Grants Fund, Civic Center Fund, and the Revolving Loan Fund. Permanent Funds consist of the Cemetery Fund and the Library Fund. Individual fund data for each of these non-major governmental funds is provided in the combining balance sheets on pages 112-113 and in the combining statement of revenues, expenditures and changes in fund balance on pages 114-115.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the authorized budget. The statement of revenues, expenditures and changes in fund balance on a budgetary basis can be found on page 57.

The basic governmental fund financial statements (balance sheet and statement of revenues, expenditures and changes in fund balance) can be found on pages 54-55 of this report.

Proprietary funds. The City of Manchester maintains five proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Manchester uses enterprise funds to account for its Water Works, Environmental Protection Division, Aviation, Recreation and the Aggregation Program Funds. The proprietary fund financial statements provide separate information for the Water Works, Environmental Protection Division and Aviation, which are considered to be major funds of the City of Manchester. Conversely, both of the remaining funds are combined into a single, aggregated presentation in the proprietary fund

financial statements. Individual fund data for the Recreation Fund and the Aggregation Program is provided on pages 117-119 in the form of combining statements elsewhere in this report.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found on pages 58-60 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to provide services to the City's constituency. The City has two pension trust funds and one agency fund. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 61-62 and 90-91 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 63-99 of this report.

The notes to this report also contain certain information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

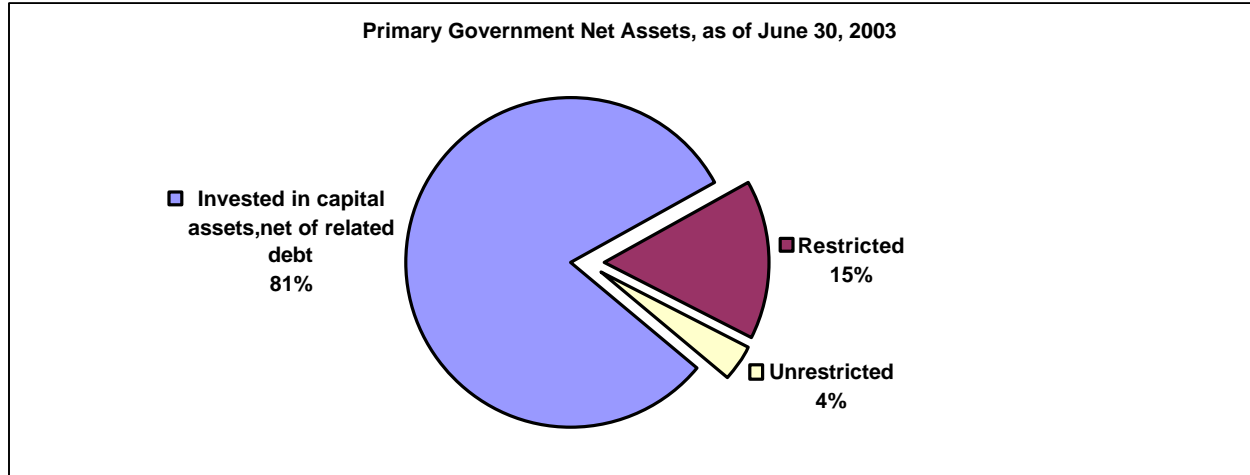
Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position and an important determinant of its ability to finance services in the future. On a government-wide basis, the City's assets exceeded its liabilities by \$383 and \$345.6 million at June 30, 2003 and 2002, respectively.

Reported for the first time in 2002 were some of the City's infrastructure assets including The Verizon Wireless Arena, roads, sidewalks, bridges, dams, right-of-ways, streetlights, and culverts, all of which have useful lives that range between 20 and 50 years. The City has, in the past, reported only its storm and sanitary sewers with useful lives of 50 years.

City of Manchester, New Hampshire
Net Assets (\$000's)
Primary Government

	June 30, 2003			June 30, 2002		
	Govern- mental Activities	Business Type Activities	Total	Govern- mental Activities	Business Type Activities	Total
Current and Other Assets	\$ 116,468	\$ 134,779	\$ 251,247	\$ 118,097	\$ 159,747	\$ 277,844
Non-Current	18,187	8,081	26,268	18,511	9,268	27,779
Capital Assets	173,781	517,958	691,739	173,630	464,750	638,380
Total Assets	308,436	660,818	969,254	310,238	633,765	944,003
Current Liabilities	84,079	23,185	107,264	73,046	20,633	93,679
Long-term liabilities outstanding	152,643	326,332	478,975	173,697	330,999	504,696
Total Liabilities	236,722	349,517	586,239	246,743	351,632	598,375
Net Assets:						
Invested in capital assets, net of related debt	84,480	225,163	309,643	73,140	202,690	275,830
Restricted	17,545	41,479	59,024	17,994	26,540	44,534
Unrestricted	(30,311)	44,659	14,348	(27,639)	52,903	25,264
Total Net Assets	\$ 71,714	\$ 311,301	\$ 383,015	\$ 63,495	\$ 282,133	\$ 345,628



At the end of the current fiscal year, the City is able to report a positive balance in both its governmental and proprietary activities.

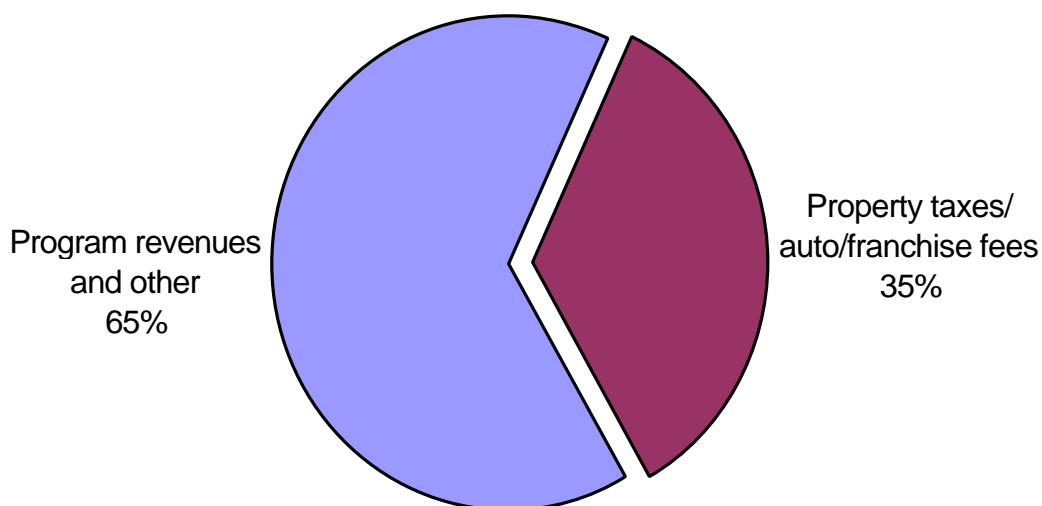
The portion of the City's net assets of \$309.6 million reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), net any outstanding debt related to these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The portion of the City's net assets that are restricted, \$59.0 million, represents resources that are subject to external restrictions on how they may be used. Governmental unrestricted net assets (deficit) of (\$30.3) million may not be used to meet the City's ongoing obligations to citizens and creditors, due to the negative balance. The primary reasons for the negative balance are due to the issuance of the 1993 Fiscal Year Conversion Bonds, which were issued to properly fund revenue and expenditure timing differences, which has an outstanding balance of \$6,199,461 as well as related Capital Appreciation Bonds accrual of \$5,136,395, the Pension Obligation Bond with an outstanding balance of \$17,230,045, which was issued to properly fund the unfunded amount, the Landfill Closure Project, which has an outstanding balance of \$1,180,555, other landfill closure and post-closure care costs estimated liability with an outstanding balance of \$18,106,957, Urban Renewal Related Projects with outstanding balances of \$2,744,909, Revaluation debt with an outstanding balance of \$885,000, long-term debt related to insurance claims with an estimated outstanding balance of \$4,135,101, as well as long-term debt related to compensated absences with an estimated outstanding balance of \$6,328,390 at June 30, 2003.

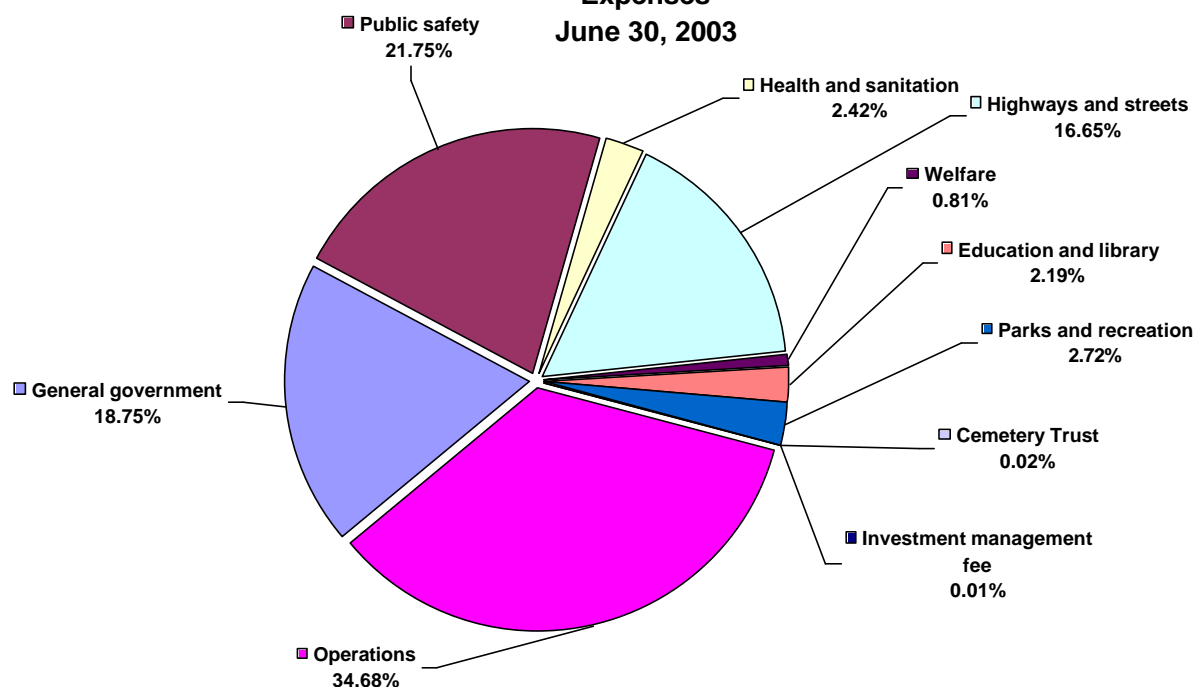
City of Manchester, New Hampshire
Changes in Net Assets (Deficits) (\$ 000's)
Primary government

	June 30, 2003			June 30, 2002		
	Govern- mental Activities	Business Type Activities	Total	Govern- mental Activities	Business Type Activities	Total
Revenues:						
Program Revenues:						
Charges for services	\$ 20,866	\$ 65,829	\$ 86,695	\$ 20,154	\$ 61,790	\$ 81,944
Operating grants and contributions	20,824	7,094	27,918	21,491	2,812	24,303
Capital grants and contributions		29,199	29,199	65,739	26,468	92,207
General Revenues:						
Property taxes/auto/franchise fees	73,037		73,037	73,204		73,204
Unrestricted investment earnings	1,088	2,627	3,715	2,122	2,762	4,884
Transfers and other	5,837	(15,361)	(9,524)	2,096	(16,662)	(14,566)
Total revenues	121,652	89,388	211,040	184,806	77,170	261,976
Expenses:						
General government	32,561		32,561	38,574		38,574
Public safety	37,766		37,766	38,059		38,059
Health and sanitation	4,196		4,196	3,527		3,527
Highways and streets	28,905		28,905	30,354		30,354
Welfare	1,405		1,405	2,240		2,240
Education and library	3,817		3,817	4,835		4,835
Parks and recreation	4,724		4,724	835		835
Cemetery Trust	36		36	27		27
Investment management fee	23		23	20		20
Contribution to Pension Trust Fund				449		449
Operations		60,220	60,220	-	47,928	47,928
Total Expenses	113,433	60,220	173,653	118,920	47,928	166,848
Change in net assets	8,219	29,168	37,387	65,886	29,242	95,128
Net assets (deficits)-beginning	63,495	282,133	345,628	(2,391)	252,891	250,500
Net assets (deficits)-ending	\$ 71,714	\$ 311,301	\$ 383,015	\$ 63,495	\$ 282,133	\$ 345,628

June 30, 2003 Primary government revenues



City of Manchester Expenses June 30, 2003



Manchester's net assets increased by \$37.4 million during the fiscal year, with net assets of Governmental Activities increasing by \$8.2 million, and net assets of Business-Type Activities increasing by \$29.2 million. The increase in net assets within Business-Type Activities is primarily due to the increases in capital contribution revenues.

Governmental Activities

More than 60% of the governmental funds revenues were derived from property taxes, auto registrations and franchise fees, followed by 17.2% from charges for services, then 17.1% from operating grants and finally, about 5.7% of the City's revenue in this fiscal year was derived from a combination of investment earnings, gain (loss) of sales of capital assets, and transfers.

Major revenue factors included:

- ◆ Investment earnings fell in the general fund from \$1.13 million in the prior fiscal year to \$.74 million for the fiscal year ended June 30, 2003. The reduction in interest and dividend earnings was the result of a slowing economy and the further subsequent reduction in interest rates by the Federal Reserve Bank.

Business-Type Activities

Business-Type activities increased the City's net assets by \$29.2 million.

- ◆ Aviation fund capital contributions amounted to \$25.5 million, an increase from \$23.2 million the previous year .

Financial Analysis of the Fund Financial Statements

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$32.06 million, a decrease from \$43.38 million as reported on June 30, 2002. Approximately 28.6% of this total amount constitutes unreserved fund balance that is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: \$14.58 million to cemetery, library and other trust funds; \$3.14 million to liquidate contracts and purchase orders of the prior period; \$2.96 million to self-insured workers' compensation claims reserve; \$1.62 million for advances to an enterprise fund and \$.6 million for inventory.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, undesignated, unreserved fund balance of the general fund was \$1.3 million while the total fund balance reached \$22.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and education operating transfers. Unreserved fund balance represents 16.23% of total general fund expenditures, while total fund balance represents 22.62% of that same amount.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the proprietary fund consisting of the Water Works were \$61.75 million, as compared to \$59.03 million in the prior year.

The unrestricted deficit of the Water Works was \$3.95 million. The Water Works experienced operating revenues of \$10.03 million from user fees. There was a total net income for the Water Works of \$50,910 before capital contributions of \$2.67 million. The change in net assets for the fiscal year ended June 30, 2003 was \$2.72 million.

The total assets for EPD decreased by 1.4%, \$2 million, bringing the ending balance to \$146.4 million at June 30, 2003. Total current assets decreased by \$4.5 million, and noncurrent assets by \$1 million, while total capital assets increased by \$3.3 million.

The fiscal year 2003 ending fund balance (fund net assets) remained relatively constant at \$103.5 million. Of this amount, \$71 million is invested in capital assets and \$.3 million is restricted for equipment replacement.

Unrestricted assets decreased by \$5.4 million and the investment in capital assets increased \$5.6 million for the fiscal year 2003.

Manchester Airport continues to experience real passenger growth in FY2003, approximately 4.4% higher than FY 2002. Operating income fell from \$11,366,591 in FY2002 to \$4,768,019 in FY2003, a decrease of 58%.

General Fund Budgetary Highlights

The City ended Fiscal Year 2003 with an improved balance sheet over FY 2002. The City's "rainy day" revenue stabilization fund increased from \$9,576,915 to \$9,633,624. The City's undesignated fund balance decreased from \$4,683,957 to \$1,304,404, because the City established two new designated fund accounts. The first is the tax rate stabilization account of which the excess of one percent of the FY 2002 tax warrants was transferred into, or \$1,981,568. The second is the special revenue account which accounts for one-time revenues, (i.e., property sales, etc.) which amounts to \$848,437. The City's reserves for workers compensation, health insurance, and general liability had an aggregate increase of \$889,717 or 19% from \$4,665,427 to \$5,555,145.

The difference between the original budget and the final revised budget was \$650,000. Budget cuts adopted during the year are summarized below:

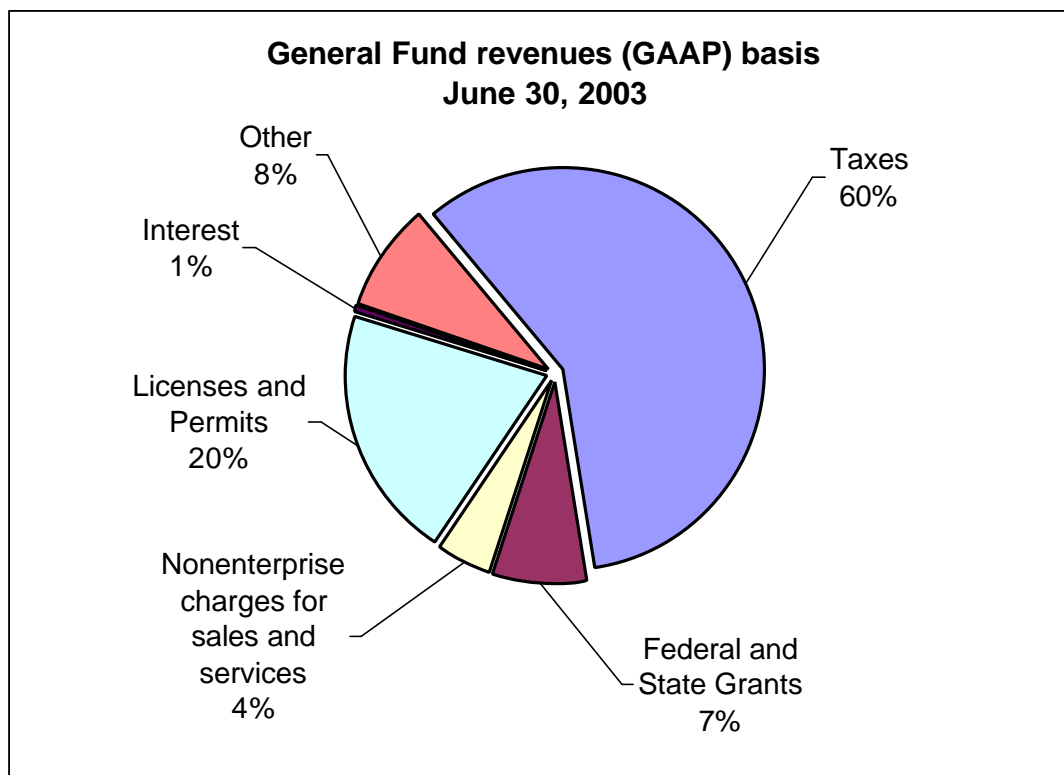
- ◆ The net budget amendment dated September 4, 2002, decreased the general fund departmental expenditures budget by \$650,000.
- ◆ A reduction from original General Government appropriations of \$227,218.
- ◆ A reduction from original Public Safety appropriations of \$120,000.
- ◆ A reduction from original Highways and Streets appropriations of \$240,664.
- ◆ A reduction from original Education and Library appropriations of \$23,069.
- ◆ A reduction from original Parks and Recreations appropriations of \$39,049.

During the year, actual revenues and other financing sources on a budgetary basis were \$99.8 million, which were short of budgetary estimates by \$4 million. Actual tax revenues were under budget by \$1,037,735. Actual intergovernmental revenue was \$74,311 over budgetary estimates. Investment income was \$1,079,889 less than the \$1.8 million that had been budgeted. The budgeted amounts, for investment income was predicated upon historical short-term interest rates that prevailed during the budget preparation period. These assumptions did not anticipate the sharp decline in interest rates during fiscal 2003. Additional shortfalls of \$349,007 resulted in fees and permits. Nonenterprise charges for sales and services were \$154,434 less than budgeted. Other revenues were \$1,457,333 less than budgeted.

Actual expenditures on a budgetary basis and other financing uses totaled \$100.8 million, \$4.1 million less than budgeted. The combined net difference of budgeted revenues and expenses on a budgetary basis resulted in a positive variance of \$94,118. The fiscal year 2003 budget included a planned appropriation of fund balance of \$1.1 million.

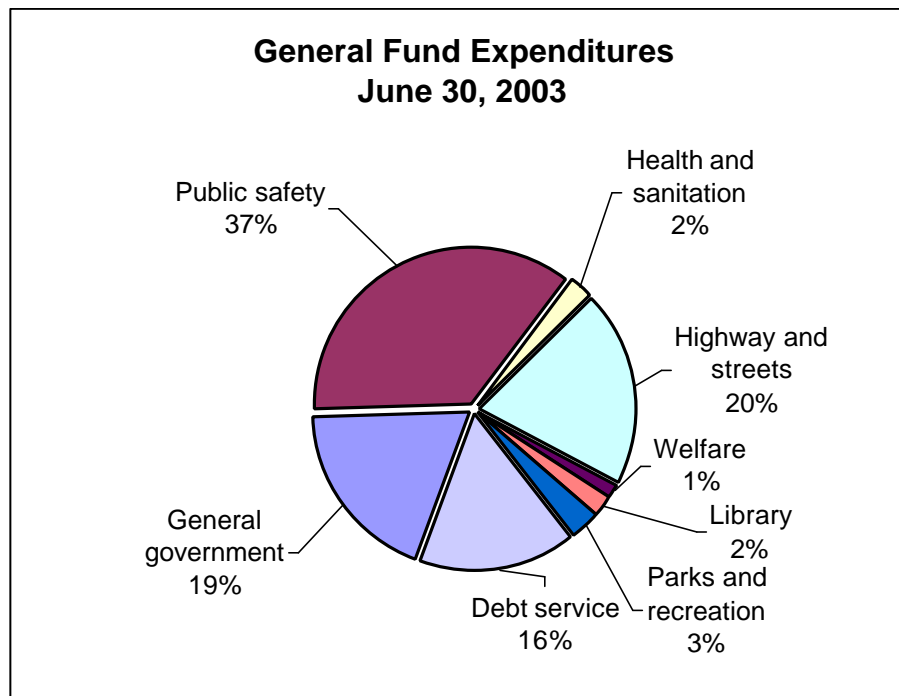
General Fund Revenues - The following schedule presents a summary of General Fund revenues (GAAP basis) for the years ended June 30, 2003 and 2002.

Revenues	2003 Amount (000's)	2002 Amount (000's)	Amount of Increase (Decrease) (000's)	Percent of Increase (Decrease)
Taxes	\$ 59,369	\$ 59,021	\$ 348	0.59%
Federal and State Grants	7,549	7,292	257	3.52%
Nonenterprise charges for sales and services	4,492	4,432	60	1.35%
Licenses and Permits	20,522	19,745	777	3.94%
Interest	736	1,133	(397)	-35.04%
Other	8,595	9,120	(525)	-5.76%
Total	<u>\$ 101,263</u>	<u>\$ 100,743</u>	<u>\$ 520</u>	<u>-31.39%</u>



General Fund Expenditures - The following schedule presents a summary of General Fund Expenditures (GAAP basis) for the years ended June 30, 2003 and 2002.

Expenditures	2003 Amount (000's)	2002 Amount (000's)	Amount of Increase (Decrease) (000's)	Percent of Increase (Decrease)
General government	\$ 18,658	\$ 18,369	\$ 289	1.57%
Public safety	35,445	34,556	889	2.57%
Health and sanitation	2,463	2,712	(249)	-9.18%
Highway and streets	19,903	20,099	(196)	-0.98%
Welfare	1,352	2,147	(795)	-37.03%
Library	2,146	2,259	(113)	-5.00%
Parks and recreation	2,992	3,034	(42)	-1.38%
Debt service	16,072	14,754	1,318	8.93%
Pension benefit payment		18,660	(18,660)	-100.00%
Total	\$ 99,031	\$ 116,590	\$ (17,559)	-31.39%

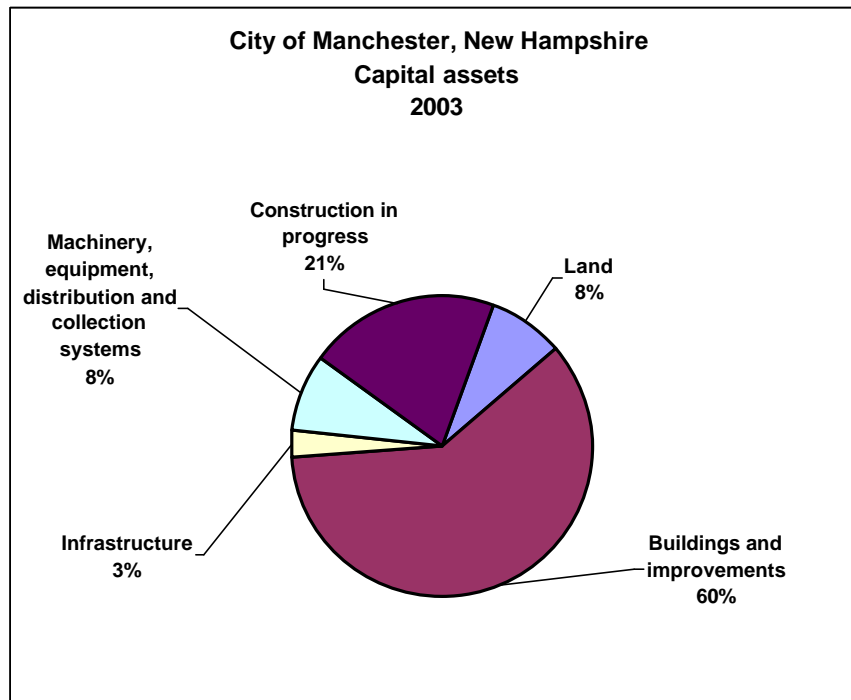


Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2003, amounts to \$691.7 million, net of accumulated depreciation. This investment in capital assets includes land, building and system improvements, machinery and equipment, park facilities, roads, sewers and bridges. The total increase in the City's investment in capital assets for the current fiscal year was \$53.3 million or 8.4%.

**City of Manchester, New Hampshire
Capital Assets (net of depreciation) (000's)
June 30, 2003 and 2002
Primary Government**

	2003			2002			
	Govern- mental Activities	Business- Type Activities	Total	Govern- mental Activities	Business- Type Activities	Total	Change
Land	\$ 18,984	\$ 36,677	\$ 55,661	\$ 18,366	10,377	28,743	\$ 26,918
Buildings and improvements	111,652	306,058	417,710	114,839	235,201	350,040	67,670
Infrastructure	17,914	-	17,914	17,572	-	17,572	342
Machinery, equipment, distribution and collection systems	6,329	51,226	57,555	5,309	52,118	57,427	128
Construction in progress	18,902	123,997	142,899	17,544	167,054	184,598	(41,699)
Total	\$ 173,781	\$ 517,958	\$ 691,739	\$ 173,630	464,750	638,380	\$ 53,359



Major capital asset events during the current fiscal year included the following:

- ◆ Improvements and renovations to school buildings and facilities.
- ◆ Continued rehabilitation of playgrounds and athletic fields.
- ◆ Infrastructure improvements including roads, bridges, and sanitary and sewer projects.
- ◆ Replacement of several pieces of emergency and rescue equipment for the fire department and purchase of police vehicles.
- ◆ Acquisition of parcels for ongoing city development projects.
- ◆ Continued improvements and expansion of the Manchester Airport.

Additional information on the City of Manchester's capital assets can be found in Note 8 on pages 81-84 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt service requirements including interest payments, on bonded debt outstanding, of \$514,630,631. 100% of the general obligation debt is backed by the full faith and credit of the City government.

City of Manchester, New Hampshire
Outstanding Debt
General Obligation and Revenue Bonds (000's) in thousands
June 30, 2003 and 2002

	2003			2002		
	Govern- mental Activities	Business- Type Activities	Total	Govern- mental Activities	Business- Type Activities	Total
General Obligation Bonds	\$ 118,937	\$ 44,030	\$ 162,967	\$ 135,788	\$ 50,927	\$ 186,715
General Obligation Revenue Bonds		271,254	271,254	-	275,329	275,329
Totals	<u>\$ 118,937</u>	<u>\$ 315,284</u>	<u>\$ 434,221</u>	<u>\$ 135,788</u>	<u>\$ 326,256</u>	<u>\$ 462,044</u>

The City was assigned the following credit ratings; FitchRatings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., have assigned the ratings of "AA+," "Aa2," and "AA+," respectively, to the Bonds.

The general debt limit of the City is 9.75% of base valuation. The base valuation (\$7,040,701,663) for computing the debt limit is determined by adding the amount of taxable property lost to cities, towns and districts as a result of the enactment of the State Business Profit Tax Law to the "equalize assessed valuation." Not more than 7% of the base valuation may be incurred for school purposes. Water and Sewer projects ordered by the State Water Supply and Pollution Control Commission, self-supporting sewer debt, debt for urban redevelopment and housing purposes, and overlapping debt are excluded from the measure of indebtedness. Other water projects are subject to a separate, special debt limit of 10% of the City's base valuation. Borrowings authorized by legislative acts rather than the general municipal finance statutes are sometimes excluded from a city or town's debt limit. The Total Equalized Valuation figure includes Utility Valuation and Railroad Monies Reimbursements. The total bonded debt for the general government includes the School District portion. As of June 30, 2003, the City recorded long-term debt of \$77.3 million related to Governmental Activities, \$41.7 related to the School District and \$44 million related to Business-Type Activities, well below its statutory debt limit.

Additional information on the City of Manchester's long-term debt can be found in Note 9 on pages 85-89 of this report.

Economic Factors and Next Year's Budgets and Rates

As of November 2003, the unemployment rate for the Manchester Metropolitan Statistical Area was 4.2%, down from 4.6% in the prior year. Moreover, New Hampshire state government is now reporting serious revenue shortfalls that may translate into reductions in State aid to the City of Manchester and other municipalities in the State.

Fiscal Year 2004 Budget

The fiscal year 2004 combined General Fund budget for the City and the MSD contains an appropriation increase of 1.31% over the fiscal 2003 budget. Non-property tax revenues are anticipated to remain flat. In the formulation of the fiscal 2004 budget, the Board of Mayor and Aldermen, after consultation with the Department of Finance and the City's assessing department, produced a budget to meet all contracted obligations without layoffs or reductions in City services. The areas of concern in developing the fiscal year 2004 budget were a sluggish economy leading to flat collections of non-property tax revenues, increased costs for retirement fund contributions and health insurance and an obligation to maintain the highest possible level of public safety, health and education. The City believes that it has met all of those concerns in the final adopted fiscal year 2004 budget.

The following table sets forth the City's General Fund operating budgets for fiscal years 2002-2004. Enterprise funds, the County tax, veteran exemptions and the overlay reserve for abatements are excluded from this table.

BUDGET TRENDS

	2002		2003		2004	
	Amount	%	Amount	%	Amount	%
Education	\$ 115,808,857	52.9%	\$ 125,898,267	54.7%	\$ 126,575,275	54.3%
General Government	21,582,883	9.9%	19,276,497	8.4%	18,172,463	7.8%
Public Safety	35,675,949	16.3%	37,096,643	16.1%	40,134,677	17.2%
Highway and Streets	21,767,436	9.9%	21,247,079	9.2%	21,520,212	9.2%
Health and Welfare	4,194,300	1.9%	4,438,720	1.9%	4,378,700	1.9%
Culture and Recreation	5,841,695	2.7%	5,748,578	2.5%	5,819,972	2.5%
Economic Development	261,737	0.1%	273,178	0.1%	172,000	0.1%
Motorized Equipment	382,500	0.2%	50,000	0.0%	120,000	0.1%
Debt Service	13,332,747	6.1%	16,072,015	7.0%	16,228,552	7.0%
Total Budget	<u>218,848,104</u>	<u>100.0%</u>	<u>230,100,977</u>	<u>100%</u>	<u>233,121,851</u>	<u>100.0%</u>
Less MSD Budget	(115,808,857)		(125,898,267)		(126,575,275)	
General Fund Budget	<u>\$ 103,039,247</u>		<u>\$ 104,202,710</u>		<u>\$ 106,546,576</u>	

Requests for Information

The financial report is designed to provide a general overview of the City's finances for all those with an interest in government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance at One City Hall Plaza, Manchester, NH 03101.